

## 2010-2011 FY Budget Address

Mayor Dan Snarr

March 30, 2010

Good evening, everyone. Thank you, Council members, for giving me the opportunity to discuss the state of the City budget and present my recommendations for the 2010-11 fiscal year. This year has been one of the most financially challenging that I can remember. I appreciate the time spent by each of our Department Heads and especially with Pat, our Finance Director, and Gabe for their input on my recommendations.

When I think of the role and responsibility of a city, I usually think about the many services we provide to our residents. As I consider the infrastructure and services we are responsible for, my thoughts go to the employees of our City who make these things happen. With an uncertain economy, many have expressed concern about the new fiscal year, so I have taken the opportunity to share my budget proposals with them. The employees are key to the success of our City and their work helps us all look good as well as keep our residents happy and glad to live in Murray. I would like to address the **same** issues I discussed with them.

To understand what is happening with the City budget, we need to go back to about October 2008. That is when our budget showed signs of being under funded and we began to carve back expenditures. Cuts were made that got us to the new fiscal year we are currently in, 2009 - 10. In planning the budget for this current year, our projected revenues are below what we thought they would be.

### **Revenues coming in under projections:**

1. \$250,000 permits
2. \$200,000 Court fines
3. \$200,000 interest income on our reserves because the rate has dropped below 1%
4. \$400,000 sales tax revenue

These revenue losses are over a million dollars more than we anticipated. This million dollar shortfall came **even after** we had projected a 10% reduction in sales tax and a 33% reduction in interest income. Our sales tax is projected to be \$10.5 million this year compared to \$14 million in 2007.

A sales tax distribution bill was passed in the legislature a few years ago that changed the amount the City received in sales tax. We had a property tax increase at the time to make up the lost revenue. Part of the legislation gave us a 'floor' at the 2004-05 sales tax distribution amount to give us some protection if the sales tax ever dropped. **We did not realize we would ever need to use it!**

The 2004-05 sales tax amount was \$12.6 million. We budgeted for that amount for our current fiscal year. We later learned that the Tax Commission took \$400,000 of the \$12.6 million to pay for processing, so our sales tax revenue was dropped to \$12.2 million. Currently our sales tax is

only coming in about \$10.5 million - or about \$2 million below our 'floor.' The 'floor' only stays in place until 2013-14, so we must hope the sales tax will rebound over the next 3 years to get back to **at least** where we were in 2004-05.

**Keeping our funding levels the same as last year's will require almost \$3 million dollars. That is the challenge we are currently facing as the budget is prepared for 2010-11.**

Over the years our City reserves have been so healthy, we were able to build both new fire stations without increasing taxes. By law, cities can only keep 18% of total general fund dollars in reserves, so we spent those extra dollars on long term capital investments.

In our current budget year some of the reserves were planned to be spent to balance the budget and pay for some road projects. At our mid-year review, with revenue slipping even more, we have had to use more reserves. We started the year with about \$6.6 million and are projecting to end the year at about \$4 million. I am suggesting that we not let our reserves drop lower than this amount.

Most of you are aware that we have been working to create a system to provide fiber to all the homes and businesses in the City. We have partnered with other cities under the umbrella of UTOPIA. Since this project began, circumstances have made the original plan change, including a lawsuit, expense of installation, lack of quality providers, time spent on getting a federal loan that did not materialize and leadership. These issues are being resolved, but it has delayed completion of the project.

Our commitment is to pay the interest on the original bonds for up to 33 years or until the system has enough users to cover the costs of installing the system. The fiber currently covers about 60% of our City.

People have asked why we don't leave UTOPIA. If we walk away, we still pay for 33 years. If we continue to work to get this valuable infrastructure in place, I am confident that the system will begin paying for itself in just a few years and the money loaned will eventually be repaid. We will then be in an enviable position with the ability to provide advanced technology to every home and business. We are already taking advantage of the system in the City, along with the school district, businesses and residents.

Working through these issues will take patience. We are now paying interest on the pledge. To this point, money has been set aside over the years to cover these expenses. This year I am recommending adding \$200,000 to replace the funds used for the payments, as we are required to do. I am also recommending putting aside \$350,000 to cover other expenses that may be necessary. This investment in infrastructure is important to the future viability of our City and I am committed to working hard to bring it to all our residents and businesses.

Today, it is my obligation to present the City Council with a balanced budget recommendation. Since we are a service organization, the majority of our budget goes to pay employee salaries and benefits.

I am not recommending salary increases or COLAs this year, continuing the same policy that was necessary last fiscal year.

As I have considered the concerns of our employees, I am working to keep people employed, avoid cutting paychecks and support other benefits as we can.

Health Insurance premiums will increase this year by 20% which equates to \$1.2 million. That is a huge jump after only a 3% increase last fiscal year. In trying to balance that increase in the best and most equitable way possible and not increase premiums paid, I am recommending that we increase co-pays, deductibles and raise limits on major hospitalization. If we make these changes, premiums can remain the same.

As you may have heard, the legislature made changes to the Utah Retirement System to balance the 5 billion dollar loss it took in the recession. Most of those changes impact future employees.

However, in their effort to help keep this fund viable, URS is anticipating annual premium increases. Those increases this year total about \$500,000 city wide. Although it is a challenge to find the resources, I am recommending that the City pay these increases this year.

We continue to review other options to make our workforce the most effective it can be. We are considering changes to our cell phone use and offering incentives for retirement. These efforts are ongoing. While we have several departments who work flexible schedules, other options, such as a four-day work week, are not cost effective at this time. I appreciate suggestions made by our employees for cost savings.

We have several employee policies that I am recommending we change this year.

1. Tuition reimbursement will continue, but will be funded at \$1250 per year rather than \$2500, saving \$27,000.
2. The safety award gift cards will not be given this year, saving \$16,000.
3. The alternate transportation program will also be eliminated, saving \$5,000.

With these considerations, these are my recommendations for filling the \$3 million gap:

The hiring freeze will continue. We currently have 6 positions that have been vacated and will not be filled. This provides an on-going savings of about \$330,000.

Department heads have significantly reduced their budgets by almost \$1.3 million. **This is in addition to the substantial cuts they made last year.** We have worked very hard to keep our commitment to provide good service to our residents. The efforts the Department Heads have made are exceptional and I appreciate their willingness to be part of the solution in a hard budget year.

We also have the ability to use some **one time money** and I am recommending that we do the following:

Our Water Department will purchase property from the General Fund for \$500,000 to create a water-use demonstration garden. This department has the reserves to make this purchase and teaching our residents about using water responsibly is a great initiative.

I am also recommending that we use \$1 million from sales tax revenue bond proceeds to reimburse the City for past purchases, as is consistent with the Parameters Resolution. These opportunities were planned when the bonds were purchased and have been used for capital projects. The bond money has also been used to work on beginning phases of our downtown improvements. Using these funds in this way, **does not change our commitment to this project**, but realistically, we will need to package our future needs in other funding options.

We had planned to use some reserves in our current budget for road projects. We share a concern for improving the roads in our City. I am recommending that this year we use our Class C road funds to do maintenance work that our own employees can do. This includes grinding, crack sealing, and asphalt overlays that can add life to roads. Holding two road projects on Sanford and Haven Crest in the current fiscal year will save \$300,000. We will continue with other projects that are planned in the current year's budget, including one on Lincoln Street and one on Fairbourne, which is a CDBG funded improvement. These are one time monies and **can not** always be the answer, but they **can** help us with the challenges we face today.

This gives us the money we need to fill the \$3 million dollar hole **and** take care of the basic necessities for running the City.

Now, what does the future hold? Planning and preparing for the needs of our citizens will take an effort that will involve all of us.

I would like to spend this year reviewing and implementing the following, as the Council agrees:

1. Continue to be aggressive with economic development
2. Review our fee structure and perhaps consider a street lighting fee
3. Work to develop a Capital Improvement Plan (CIP) for the City
4. Plan to work through the year on our internal policies and budget issues
5. Review mid-year opportunities for addressing certain budget cuts
6. Consider an increase to property taxes for future years

I have worked very hard in presenting a budget for the next fiscal year to continue to provide great service and infrastructure. We are fortunate to have some options to keep us moving forward.

I am optimistic that the future of the City is bright. These economic times will not change overnight, but I believe we have the tools we need to weather the storm. I appreciate your support and effort as we move forward in this process.

Thank you.